

Message Text

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PAGE 01 KARACH 01234 201155Z

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ACTION NEA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAЕ-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 EUR-12

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P R 201055Z JUN 75

FM AMCONSUL KARACHI

TO AMEMBASSY ISLAMABAD PRIORITY

INFO SECSTATE WASHDC 8954

AMCONSUL LAHORE

LIMITED OFFICIAL USE KARACHI 1234

E.O. 11652: N/A

TAGS: ENRG, EINV, PK

SUBJECT: REPRESENTATIVES OF U.S. AND U.K. OIL COMPANIES CONTROL-LING PAKISTAN REFINERY LTD. TO HOLD IMPORTANT MEETING WITH GOP ON FUTURE OF REFINERY

BEGIN SUMMARY: OVER THE PAST WEEK SENIOR REPRESENTATIVES OF THE FOUR FOREIGN OIL COMPANIES (ESSO, CALTEX, SHELL AND BURMAH WITH 15 PERCENT EQUITY EACH) PARTICIPATING IN MAJORITY OWNERSHIP OF PAKISTAN REFINERY LTD. (PRL) HAVE BEEN ARRIVING IN KARACHI IN INTENSIVE CONSULTATIONS BETWEEN THEMSELVES AND LOCAL RESIDENT EXECUTIVES OF THEIR FIRMS PRIOR TO A PRL BOARD MEETING BEING HELD JUNE 20. PRL PARTICIPATING COMPANIES WILL, AT THIS MEETING, CONCERT THEIR POSITION IN PREPARATION FOR IMPORTANT MEETING NEXT DAY, JUNE 21, WITH SENIOR GOP OFFICIALS OF THE MINISTRY OF FUEL, POWER AND NATURAL RESOURCES AND PROBABLY OTHER MINISTRIES. THE ISSUE AT HAND, WHICH HAS BEEN BREWING FOR SEVERAL YEARS, CONCERNS RENEGOTIATION TO THE PRL CONTRACT WITH THE GOP, WITH PARTICULAR REGARD TO RIGHTS OF FOREIGN PARTICIPATING COMPANIES TO

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PAGE 02 KARACH 01234 201155Z

MATCH LOWEST OUTSIDE BID AND PROVIDE ABOUT 60 PERCENT OF CRUDE OIL

CONSUMED BY REFINERY. END SUMMARY

1. FOR SOME TIME GOP HAS INTIMATED TO KARACHI-BASED EXECUTIVES OF THE FOREIGN PARTICIPATING COMPANIES THAT REFINERY CONTRACT IS "OUTMODED" AND SHOULD BE RENEGOTIATED IN ORDER TO FURTHER RESTRICT PRESENT RIGHTS OF THE PARTICIPATING COMPANIES TO PROVIDE CRUDE. POSITION OF PARTICIPATING COMPANIES IS THAT THEIR MAJOR REASON FOR AGREEING TO BUILD PRL REFINERY AT KARACHI IN FIRST PLACE WAS THE ATTRACTION INHERENT IN THE CRUDE SUPPLY RIGHTS FOR THE REFINERY AND THAT GIVING UP OF THESE RIGHTS WOULD RENDER THEIR FURTHER CONTINUED PRESENCE IN PAKISTAN EVEN LESS ATTRACTIVE THAN IT IS AT PRESENT. THE PARTICIPATING COMPANIES ARE ACUTELY AWARE, HOWEVER, OF THE ALTERED POWER RELATIONSHIPS WHICH NOW OBTAIN BETWEEN THE INTERNATIONAL OIL COMPANIES AND HOST COUNTRIES COMPARED TO THOSE WHICH EXISTED WHEN PRL WAS ORIGINALLY BUILT. THEY ALSO REALIZE THAT THE GOP HAS THE REGULATORY POWER OVER PRICING, SUPPLY OF TRANSPORT AND MANY OTHER ASPECTS OF THE OIL BUSINESS TO THROTTLE SLOWLY AND RENDER ECONOMICALLY UNATTRACTIVE THE OPERATIONS OF PRL WITHOUT TAKING ANY ACTUAL NATIONALIZATION MEASURES.

2. UNDER THE CIRCUMSTANCES THE PARTICIPATING COMPANIES KNOW THEY ARE IN A TOUGH POSITION AND MAY BE FORCED INTO SIGNIFICANT CONCESSIONS. THEY BELIEVE THAT POSITIONS WILL BE FURTHER DEFINED JUNE 21 AT THE MEETING WITH THE GOP, BUT THAT RENEGOTIATION OF THE PRL CONTRACT WILL CONTINUE FOR SEVERAL MONTHS.

3. COMMENT: DURING A SMALL RECEPTION FOR THE VISITING SENIOR PARTICIPATING COMPANY REPRESENTATIVES WHO WILL MEET WITH THE GOP ON JUNE 21, A FAIRLY SOMBER MOOD PREVAILED. REPS WERE RETICENT IN GIVING ANY DETAILS CONCERNING THEIR NEGOTIATING POSITIONS OR HOW THEY THOUGHT THE MEETINGS WITH THE GOP WOULD PROGRESS.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NEGOTIATIONS, MEETINGS, CONTRACTS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchant0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975KARACH01234
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750215-0622
From: KARACHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750631/aaaabcbm.tel
Line Count: 94
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 19 AUG 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <19 AUG 2003 by ellisoob>; APPROVED <04 DEC 2003 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REPRESENTATIVES OF U.S. AND U.K. OIL COMPANIES CONTROL- LING PAKISTAN REFINERY LTD. TO HOLD IMPORTANT MEETING WITH GOP ON
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To: ISLAMABAD
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006